

SB 1113 Floor Report

**July 29, 2004
SENATE REPUBLICAN
FISCAL OFFICE**



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Budget Briefs

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Overview

SB 1113 proposes spending \$161.4 billion, of which \$78.8 billion is from the General Fund, and \$2 billion of which is from the Economic Recovery Bond. The major features of the budget are as follows:

- Contains no new general tax increases.
- Extends the Use Tax exemption on boats, motor vehicles, and airplanes from 90 days out of state, to 365 days out of state. (The extension is for the next two years.)
- Suspends the Teacher Tax Credit for two years.
- Contains a Local Government agreement to provide \$2.6 billion in General Fund savings to the state while providing protection of future local government revenues.
- Significantly reforms AB 796 “sue your boss” legislation, improving the state business climate and reducing the likelihood of frivolous lawsuits.
- Provides \$190 million in equalization funding for K-12 schools and community colleges.
- Saves \$2 billion by suspending Proposition 98, while still providing a \$1 billion year-over-year increase for K-12 schools and community colleges.
- Increases K-12 per-pupil funding by \$282.
- Spends \$188 million to settle the Williams education lawsuit.
- Rejects the Governor’s child care reforms which would have saved \$120 million.
- Provides over \$36 million in additional General Fund for “outreach” to students to attend UC and CSU.
- Provides \$33.3 million in General Fund to CSU for enrollment growth, including \$21.1 million for growth resulting from the dual admissions program.
- Backs down from a significant number of fees, including Timber Harvest Plan Fees, Coastal Commission Permitting Fees and Incidental Take Permit Fees. It also caps Enterprise Zone Fees, and eliminates the PUC Teleconnect Fund, and State Responsibility Area (SRA) fees.
- Fails to repeal SB 1419, which limits the ability of school districts to contract out for services.
- Repays \$1.2 billion in transportation loans.
- Fully funds Booking Fee subventions at \$38.2 million.

- Provides \$18.5 million for subventions to Rural Sheriffs
- Increases Health and Human Services spending by \$2.5 billion.

This measure spends \$2.8 billion more than the \$76.1 million proposed in the Governor's Budget in January, and \$1.3 billion more than the \$77.5 billion proposed in the Governor's May Revision. Year-over-year expenditures increase 6.9 percent (absent ERB offsets), from \$75.6 billion to \$80.8 billion. With anticipated General Fund revenues of \$75.7 billion (\$77.3 billion including revenue transfers and POB revenues), and anticipated General Fund expenditures of \$78.8 billion for 2004-05, this measure would spend \$1.5 billion more General Fund than is anticipated for the fiscal year.

Local Government

State-Local Reform. SB 1113 assumes passage of the State-Local Reform compromise that includes statutory and constitutional amendment proposals that would provide for the stability of local finance by locking in most of the current fiscal structure, and increase mandate funding accountability. In general, the measure restricts the state's authority to reduce non-education local government taxes, except for a \$1.3 billion shift from Cities (\$350 million), Counties (\$350 million), Redevelopment Agencies (\$250 million), and Special Districts (\$350 million) in 2004-05 and 2005-06. In future years, local governments will receive sufficient property tax to fully replace the state's Vehicle License Fee (VLF) subvention. Therefore, it does impose added fiscal pressure on many local governments in the short-term, but is structured in a manner that **does not** as easily allow for future state tampering. Although, it permits the Legislature to borrow local government property tax funds beginning in 2008-09 and no more than twice in a ten-year period when various specific conditions are met.

The VLF tax rate would be reduced from 2.0% to the existing rate of 0.65% of the value of the vehicle. This will ensure that taxpayers will retain the current tax relief that they are receiving, but permit the elimination of the General Fund offset program. In order to protect local governments, the reduction in vehicle license fees to cities and counties from this rate change will be replaced by an increase in the amount of property tax revenue they receive (Approximately \$4 billion revenue shift). Furthermore it provides that if the Legislature lowers the VLF to a rate below 0.65% the Legislature must backfill the revenue loss to cities and counties.

A constitutional amendment for the November 2004 ballot is proposed to protect local governments' property, sales, and vehicle license fee revenues in future years. Under the agreement, local governments will be provided relief from unfunded state mandates. If a mandate is not fully funded in the subsequent State budget, the mandate would be suspended. Also, the existing mandate debt (Approximately \$1.6 billion) would be repaid to local governments over five years, beginning in 2006.

COPS/JJCPA. SB 1113 provides \$100 million for the Citizens Option for Public Safety (COPS) program and \$100 million for the Juvenile Justice Crime Prevention Act (JJCPA) program.

Booking Fees. A related budget trailer bill provides \$38.2 million, General Fund, booking fee reimbursements to cities for 2004-05 pursuant to the 1997-98 level and provides that counties can charge fees that are no higher than the fees they charged on January 1, 2004 for the 2004-05 fiscal year. The section that provides for state reimbursement to the cities would sunset in 2005-06 and thus the state would no longer provide booking fee reimbursements. Counties could then only charge 50 percent of their administrative costs for booking suspects.

Rural Sheriff Department Funding. A related budget trailer bill appropriates \$18.5 million from the General Fund for allocation to county sheriffs' departments to enhance law enforcement efforts in the counties specified by deleting the 2004-05 suspension provision.

Education

This measure provides about \$47 billion in funding for K-12 schools and Community Colleges. Proposition 98 (P98) expenditures will rise by over \$1 billion from 2003-04 to 2004-05, even with a \$2 billion suspension of the Proposition 98 guarantee of funding. The measure is consistent with the Governor's agreement with the education coalition.

Proposition 98. The Governor's January proposal to suspend the 2004-05 P98 guarantee by about \$2 billion is reflected in this bill. The 2004-05 guarantee has increased by about \$577 million beyond the amount estimated in January, as shown in the table below. Of this amount, the budget appropriates about \$308 million, and sets the remainder aside for later appropriation.

Proposition 98 Funding						
Appropriations (Dollars in thousands)	General Fund		Local Property Taxes		Total	
	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
K-12 schools	\$28,054,968	\$30,875,301	\$13,666,244	\$11,213,733	\$41,721,212	\$42,089,034
Community Colleges	\$2,272,470	\$3,066,558	\$2,122,805	\$1,771,857	\$4,395,275	\$4,838,415
Other	<u>\$95,124</u>	<u>\$94,545</u>	<u>\$0</u>	<u>\$0</u>	<u>\$95,124</u>	<u>\$94,545</u>
	\$30,422,562	\$34,036,404	\$15,789,049	\$12,985,590	\$46,211,611	\$47,021,994
Minimum guarantee (if no suspension)					\$46,681,716	\$49,294,450
Suspension					\$0	\$2,003,996
Underappropriation or settle-up owed					\$470,105	\$268,460
					\$470,105	\$2,272,456
Per-pupil expenditures (in whole dollars):						
Proposition 98					\$7,011	\$7,007
All fund sources					\$9,530	\$9,812
Proposition 98 "split" (CCC percentage)					9.53%	10.31%

Categorical Reform. The Governor's proposal to shift 22 categorical programs, worth about \$2.1 billion, into general-purpose funding that schools could use for locally-determined priorities, was rejected by both houses. A pending bill, SB 1510 (Alpert), would instead shift many of these same programs into several block grants.

Growth and COLA. This bill provides full funding for anticipated K-12 growth (0.95%) and COLA (2.41%) in 2004-05, as the Governor proposed. These unrestricted funds may be used by school districts for whatever purpose they deem necessary or desirable.

Emergency Loans to School Districts. This measure assumes one-time General Fund savings of about \$167 million through new authority proposed by AB 1554 under which the State Infrastructure Bank would arrange for lease-revenue debt to replace existing General Fund loans to Oakland, Vallejo, and West Contra Costa school districts. This same lease-revenue mechanism could be used instead of direct General Fund loans for future emergency bailout loans to schools, if the Legislature so chooses. As of this writing (July 28, 2004), AB 1554 has not yet reached the Senate floor.

Special Education. Consistent with the Governor's proposal, this measure maximizes the use of Federal Funds to reduce the need for General Fund to the extent allowed by law, while maintaining the state's required maintenance of effort. In addition, it includes federal funding to significantly enhance two special education programs:

- **Special Education Students in Licensed Children's Institutions.** This measure provides an additional \$38.4 million in Federal Funds for a new funding formula for students with exceptional needs who reside in licensed children's institutions. The formula for distributing the funds is contained in the education omnibus trailer bill (SB 1108/AB 2122).
- **Mental Health Services.** The budget bill would increase federal funding for mandated county mental health programs for special education children by \$31 million, bringing total funding for this program to \$100 million. This augmentation is pursuant to legislation (likely SB 1895 (Burton), which is not a budget trailer bill).

Child Care. Both houses of the Legislature rejected the Governor's child care reforms that would have generated savings of \$120 million. However, this measure does include two significant changes in the education budget for child care:

- Provides \$1.5 million in one-time federal funds for anti-fraud activities to strengthen the fiscal integrity of the state's child care expenditures.
- Expands existing after-school program grant caps to allow for increased service to 11 and 12-year olds who would otherwise be eligible for most costly state-subsidized child care, if the child's parent certifies that the after-school program meets the family's child care needs.

We note that when the Legislature restored funding to the budget for child care, it used one-time funding. It is therefore likely that child care reform will return as an issue next year when the one-time funding expires.

Higher Education

The budget bill provides an additional \$112 million beyond what the Governor proposed to spend for higher education, as shown in the table below

Higher Education Budget Augmentations & Redirections	
(Dollars in thousands)	
Add General Fund:	
\$29,300	UC outreach
\$3,800	UC labor institute
\$7,000	CSU outreach
\$21,100	CSU dual admissions
\$12,200	CSU enrollment growth
\$5,400	Fully fund competitive Cal Grant awards
<u>\$11,200</u>	Reverse CalGrant income ceiling reduction
\$90,000	
Restore funding for Cal Grant awards to private college students:	
\$12,500	Transfer from Student Loan Operating Fund
<u>\$9,500</u>	General Fund
\$22,000	
Redirect existing UC/CSU resources:	
\$12,000	UC dual admissions
<u>\$45,000</u>	CSU outreach
\$57,000	

California Community Colleges (CCCs). The budget bill includes a 2.41% COLA, 3.65% for enrollment growth, and \$80 million for equalization (allocated on a reasonable “90%” formula) for the Community Colleges. The colleges’ portion of 2004-05 Proposition 98 funding is estimated at 10.31%, up from 10.04% in January. CCC student fees will rise in 2004-05 from \$18 to \$26 per unit. Baccalaureate degree holders will not be assessed an additional per-unit surcharge.

University of California and California State University. The May Revision proposed a compact with the University of California and California State University that focused on predictability, both in terms of student fees and funding increases for the institutions. This measure reflects the approval of some features of the compact and the rejection of others:

- The compact included **institutional funding increases (COLA)** for UC and CSU of zero in 2004-05, 3% in 2005-06 through 2006-07, 4% in 2007-08, and 5% in 2008-09 through 2010-11. Consistent with the Governor’s proposal, the final budget includes no funding for this purpose in 2004-05.

- The compact did not fund **enrollment growth** in 2004-05, but instead proposed a “dual admissions” program wherein ten percent of entering freshmen would be offered a slot at the Community Colleges with guaranteed admission to a UC or CSU campus at the end of two years. This measure provides \$21.1 million to CSU for this purpose (even though it will not be implementing the program in 2004-05). UC has agreed to redirect \$12 million in existing resources for the program, which will be implemented on a voluntary basis.
- The compact proposed **undergraduate student fee increases** of 14% in 2004-05 and 8% in 2005-06 and 2006-07, or an average of 10 percent annually over a 3-year period, and graduate student fee increases in 2004-05 of 20% at UC and 25% at CSU (with the exception of teacher credential candidates’ fees which would increase by only 20%). Consistent with the Governor’s proposal, this measure allows mandatory undergraduate fees to rise in the 2004-05 academic year to about \$5,700 at UC and \$2,600 at CSU. Fees for UC graduate students and CSU nursing and teacher credentialing students will rise by 20% (to \$6,300 at UC and \$2,700 at CSU). Other CSU graduate student fees will rise by 25%, to about \$2,800.
- **Eligibility.** Under the compact, **UC** agreed to maintain its commitment to provide a space for the top 12.5% of high school graduates and to provide access to transfer students, and **CSU** agreed to provide a space for the top one-third of graduating high school seniors and to provide access to transfer students. These commitments remain in place.
- Under the compact, **outreach** to underrepresented students would have been continued through a combination of redirected institutional funding and private sector matching funds (UC agreed to provide at least \$12 million per year from existing resources, CSU agreed to provide at least \$45 million per year from existing resources, and both institutions agreed to seek additional funding from the private sector). This measure reflects a different approach, wherein UC will receive \$29.3 million and CSU \$7 million in state funding for outreach. CSU will continue to redirect \$45 million from existing resources for this purpose, but UC will be using its \$12 million for the dual admissions program.

Student Aid Commission (Cal Grants)

- The Governor’s January budget included a \$43.7 million augmentation for Cal Grants, and the May Revision added another \$31.9 million to provide full funding for the Student Aid Commissions’ revised estimate for 04-05 awards. Total Cal Grant program funding will rise to over \$690 million.
- The January budget proposed to fully fund the statutory requirement for 22,500 “competitive” Cal Grant awards each year. Funding for this purpose is included in this measure.
- This measure creates \$117.4 million in one-time General Fund savings by using excess reserves in the Student Loan Operating Fund (SLOF) to offset General Fund expenditures for Cal Grants by an identical amount. In addition, \$29.1 million in SLOF reserves are used to restore funding for competitive Cal Grant awards (\$5.4 million), reverse a Cal Grant income ceiling reduction (\$11.2 million), and, along with \$9.5 million in General Fund, to partially restore a reduction in the maximum Cal Grant award for students who attend these more costly private universities (\$12.5 million). The maximum Cal Grant award for private universities will fall from \$9,708 to \$8,322 (rather than to \$5,482 as the Governor proposed).

Transportation

Proposition 42. Enacted by the voters in the March 2002 election, Proposition 42 amended the State Constitution to permanently dedicate sales taxes on gasoline for transportation projects. Specifically, the Proposition requires the transfer of gasoline sales tax revenues from the General Fund to a newly created Transportation Investment Fund (TIF). The Proposition also allows the Administration and the Legislature (if two-thirds of the membership approve) to suspend the transfer of sales tax revenues in a fiscal year in which the transfer will result in a significant negative impact on government functions funded by the General Fund. The transfer is partially suspended in fiscal year 2003-04.

For fiscal year 2004-05, budget trailer bill SB 1099 proposes to suspend the entire Proposition 42 transfer (\$1.206 billion) and retain the money in the General Fund to be used for non-transportation purposes. Repayment of this amount is proposed for June 30, 2008, and is included in the omnibus transportation trailer SB 1098.

Traffic Congestion Relief Program (TCRP). The TCRP is a carve-out for transportation projects of former Governor Davis. Unlike projects in the State Transportation Improvement Program (STIP), where projects are prioritized by regional planning agencies and then competitively selected for funding by the California Transportation Commission, the 141 projects in the TCRP were hand-picked by the Davis administration and by-passed the normal prioritization and selection process. Republicans have traditionally disapproved of the TCRP because of its pork-barrel approach to transportation funding, and because over 60 percent of those funds (which come from sales taxes paid by motorists) would be used to fund non-highway projects such as rail and transit.

In January, the Governor proposed to repeal the TCRP and allow these projects to be funded through the STIP or other funding sources if local transportation agencies deem the projects to be a high priority. However, in the May Revision, the Governor reversed his proposal to repeal the TCRP, and instead augmented the program by \$163 million to fund projects in 2004-05 that have an existing allocation. This amount, funded from the General Fund and “spill-over” revenues, would constitute a repayment of previous loans made to the General Fund from the TCRP. Also, recently chaptered legislation related to tribal gaming compacts (AB 687— Ch. 91/2004) allocates another \$290 million to the TCRP from bond proceeds secured by tribal gaming revenues. In total, the budget proposes \$453 million for TCRP projects in 2004-05.

This, and other transportation loan repayments, is discussed below in “*Repayment of transportation loans*”.

Repayment of transportation loans. Between fiscal years 2001-02 and 2004-05, the General Fund will have borrowed a total of \$3.624 billion from transportation, including \$1.556 billion in loans from various transportation accounts, and \$2.068 billion from the 2003-04 and 2004-05 Prop. 42 suspensions. To date, only \$273 million has been repaid.

For 2004-05, a total of \$1.397 billion is proposed to be repaid from a variety of funding sources, authorized by both the budget bill (SB 1113) and recently enacted AB 687 related to tribal gaming compacts. Specifically, SB 1113 authorizes repayment of \$183 million from a combination of General Fund and “spill-over” revenues (See “*Public Transportation Account (PTA) “spill-over” funds*” for explanation). Also, AB 687 (Chapter 91, Statutes of 2004) proposes to repay \$1.214 billion from bond proceeds secured by tribal gaming revenues. At the time of this analysis, the Administration has reached agreement with only five tribes, which will generate only \$1 billion in bonds. However, the Administration is optimistic that more tribes will come to agreement with the State and pledge revenues sufficient to bond \$1.214 billion.

AB 687 specifies the priority order in which the various transportation accounts will be repaid. If the \$1.214 billion is not fully realized, then funding for the Public Transportation Account and local streets and roads (which have parity for funds after the SHA and TCRP allocations) will be less than anticipated. The table below shows the repayment of \$1.397 billion from the various funding sources, assuming realization of \$1.214 billion in bond proceeds, and how that repayment would be allocated among the transportation accounts. Republicans traditionally support priority funding for the SHA and local streets and roads over TCRP and PTA, because the former fund construction and maintenance of the State's highway system and local roads, whereas the latter tend to fund projects of questionable merit and mass transit.

(Dollars in millions)	SB 1113		AB 687	Total
	General Fund	Spill-over	Gaming Bonds ^a	
State Highway Account (SHA)	\$20	0	\$457	\$477
Traffic Congestion Relief Program (TCRP)	23	140	290	453
Public Transportation Account (PTA)	0	0	275	275
Local Streets and Roads	0	0	192	192
State Transit Assistance	0	0	0	0
Totals	\$43	\$140	\$1,214	\$1,397

^a AB 687 specifies the order in which the various transportation accounts will be repaid. Specifically, bond proceeds from tribal gaming revenues would first repay the SHA and the TCRP for the amounts reflected above, totaling \$747 million. Then \$384 million would be allocated equally between the PTA and local streets and roads, with each receiving \$192 million. The remaining \$83 million would go to the PTA. This table assumes that the State will fully realize \$1.214 billion.

Change in accounting to yield \$200 million. The Governor's mid-year proposals included a change in cash management of transportation funds that was estimated to generate approximately \$800 million. Of this amount, \$600 million would be transferred to the General Fund, and \$200 million would fund transportation projects. Due to delayed federal reauthorization, the accounting change would generate only \$200 million. SB 1113 reflects this adjustment and proposes to utilize the \$200 million entirely for transportation projects, with no transfer to the General Fund.

GARVEE Bonds. Grant Anticipation Revenue Vehicles (GARVEE Bonds) are debt instruments that pledge future federal highway funds to meet debt service requirements. Thus far, the California Transportation Commission has authorized approximately \$658 million in GARVEEs for 2003-04 (total cost of \$797 million over an 11-year term), and anticipates authorizing another \$800 million in 2004-05.

Expenditures for GARVEEs and other transportation funds are continuously appropriated, and therefore, do not require annual budget expenditure authority. However, SB 1113 includes provisional language that would improve the Legislature and Administration's oversight of GARVEEs. Specifically, SB 1113 requires the California Transportation Commission, before allocating projects next year that would result in bond issuance exceeding \$800 million, to consult with the Department of Finance and specified state agencies on the effect that such an issuance would have on future federal funding commitments, and to provide a 60-day notification to Legislature. The purpose of such a review is to safeguard against the over-bonding of federal funds, which could endanger initiation of new transportation projects in the future.

Public Transportation Account (PTA) "spill-over" funds. Current law contains an arcane formula that requires the General Fund to transfer sales tax revenues to the PTA under specified conditions.

This transfer is often triggered during periods of high gasoline prices and is used to fund rail and mass transit projects. SB 1113 proposes to transfer \$140 million in “spill-over” funds to the TCRP as repayment for amounts owed by the General Fund. See discussion under *“Repayment of transportation loans”*. This proposal would, in effect, divert monies from public transit projects to fund roads and highways.

Aeronautics Account transfer to the General Fund rejected. Revenues for the Account are derived from an excise tax on aviation and jet fuel. These funds are typically used by publicly-owned airports to maintain and improve runways. In 2002 and 2003, approximately \$6 million and \$4.8 million, respectively, were transferred from the Aeronautics Account to the General Fund. SB 1113 rejects the Administration’s proposal to transfer \$745,000 to the General Fund in 2004-05.

Identification card fee reduction for low-income applicants. Currently, the Department of Motor Vehicles is authorized to collect fees for providing, among other things, drivers’ licenses and identification cards. These fees are deposited into the Motor Vehicle Account and are used to support the operations of the department as well as the California Highway Patrol. Fees have been increased for several consecutive years to fund rising retirement costs for CHP personnel and provide a more stable fund reserve. Budget trailer legislation would decrease the fee for issuing California identification cards from \$20 to \$6 for eligible low-income applicants. This fee reduction would cause revenue loss to the Motor Vehicle Account of \$700,000 in 2004-05, and \$1.4 million annually thereafter.

Health

For the 2004-05 fiscal year, SB 1113 proposes total expenditures of \$68.3 billion in combined state and federal funds for all Health and Human Services Agency budgets. General Fund expenditures for Health and Human Services are projected to be \$25.5 billion, which represents 32.4 percent of the state budget.

From 1998-99 to the 2003 Budget Act, General Fund expenditures on health and human services programs grew at an unprecedented, and many would argue, unsustainable pace. State Operations expenditures grew from \$567 million to \$1.4 billion, or 143.9 percent. By the beginning of 2003, the state had 31,356 Personnel Years associated with health and welfare activities. During the same timeframe (1998-99 to the 2003 Budget Act), local assistance expenditures increased by 47.6 percent, to \$22.7 billion General Fund. Some of the highest growth was seen in the In-Home Supportive Services, Medi-Cal, Developmental Services, and Supplemental Security Income/State Supplementary Payment programs. The 2004-05 budget continues on a disastrous course.

Unlike education, spending for health and human services is largely discretionary. In fact, the Medi-Cal program alone is the second largest General Fund expenditure after K-12 education. These are huge programs that affect the lives of millions of Californians, and necessary long-term restructuring will take a great deal of sensitivity and effort. Most reforms will take multiple years to implement. The “solutions” contained in SB 1113 fail to address the structural deficit, and runaway spending for health and human services is continued.

This budget is full of “lost opportunities.” Programs could have been redesigned and reformed in order to reduce spending and contain future cost growth, but these proposals are not included in SB 1113. Some examples of the lost opportunities are:

- Medi-Cal Redesign
- Medi-Cal Asset Shelters
- Federally Qualified Health Center/Rural Health Center Rates
- Two-Tiered Benefit Structure for Healthy Families

- Women, Infants and Children (WIC) Reform
- Early Periodic Screening, Diagnosis and Treatment (EPSDT) Cost Containment
- Sexually Violent Predator (SVP) Program Reform
- Purchase of Services Standards for Regional Centers

Medi-Cal

Medi-Cal serves one in five Californians. SB 1113 includes \$33 billion (\$11.9 billion General Fund) to fund the Medi-Cal Program, which is 16.6 percent above the Budget Act of 2003.

- **Fee Assessment on Managed Care Plans.** SB 1113 projects General Fund savings of \$12.5 million that will result from a “DSH-like” arrangement with managed health care plans. These plans will be required to pay a monthly 6-percent fee based on their total operating revenue. The new fee will be effective January 1, 2005 and will sunset January 1, 2009. Fees will be deposited in the General Fund and will be used to draw down federal matching funds. Medi-Cal managed care plans will receive a reimbursement rate increase of approximately nine percent.
- **Increased Fee for Long-Term Care Insurers.** SB 1113 increases the current annual of \$10,000 to not less than \$20,000 on each organization issuing policies certified by the Department of Health Services for the Partnership on Long-Term Care. These funds are to be used for educational and marketing expenses for reaching the targeted population (i.e., outreach). Five insurance companies have opted to participate in this program, and a sixth company is expected to join during the budget year.
- **Reduced Reimbursements for Pharmacies.** SB 1113 includes savings of \$104.2 million (\$52.1 million General Fund) from setting the reimbursement rate for drugs provided under the Medi-Cal Program at the lowest of average wholesale price (AWP) minus 17 percent, the average sales price, the federal upper limit, or the maximum allowable ingredient cost (MAIC). Reimbursement for dispensing drugs will be \$7.25 per prescription for most drugs and at \$8.00 per prescription for brand-name drugs dispensed to a beneficiary residing in a skilled nursing facility or intermediate care facility. Currently, pharmacy reimbursement is AWP minus 10 percent and \$3.55 per prescription.
- **Limited Reimbursement for Electromyography and Nerve Conduction Tests.** SB 1113 assumes General Fund savings of \$850,000 because Medi-Cal reimbursement for these tests will be limited to providers with a certificate or diploma in neurology or physical medicine and completion of an accredited rehabilitation residency program. The Health Omnibus budget trailer bill also provides authority to limit reimbursement to certain procedures, tests, examinations, or other medical services.
- **Restoration of Provider Rate Cuts.** SB 1113 appropriates \$4.2 million General Fund to restore a variety of provider rate cuts. Reductions made effective January 1, 2004 will be restored for the following programs: (1) California Children’s Services (CCS); (2) Genetically Handicapped Persons Program (GHPP); (3) Child Health Disability Prevention (CHDP); (4) Multipurpose Senior Services Program (MSSP); (5) Breast and Cervical Cancer Early Detection Program (BCCEDP); and (6) breast cancer programs specified in Section 30461.6 of the Revenue and Taxation Code.
- **Elimination of the Wage Adjustment Rate Program (WARP).** SB 1113 reflects one-time savings of \$46 million General Fund in conjunction with the Health Omnibus budget trailer bill. The trailer bill repeals the 2001 statute that provides for a supplemental rate adjustment for nursing facilities that have a collectively bargained contract or legally binding written commitment to increase salaries, wages, or benefits for nonmanagerial, nonadministrative, noncontract staff.

- **Lower Interim Payments to Non-Contract Hospitals.** SB 1113 reflects an adjustment of \$57.3 million (\$28.6 million General Fund) by adjusting the Interim payments to non-contract hospitals. Effective September 1, 2004, interim payments will be reduced by 10 percent for the 2004-05 fiscal year; however, the final settlement amount will not be affected. Therefore, this is simply a deferral and not real savings.
- **Retroactive Payments to Clinics.** In conjunction with the Health Omnibus budget trailer bill, SB 1113 includes funds to make retroactive payments to Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs). The payments would cover the period January 1, 2001 through June 30, 2004.
- **One-Year Moratorium on New and Expanded Adult Day Health Care (ADHC) Centers.** SB 1113 includes savings of \$6.6 million (\$3.3 million General Fund) due to the implementation of a one-year moratorium on the certification and enrollment into the Medi-Cal Program of new or expanded Adult Day Health Care (ADHC) centers. The Health Omnibus budget trailer bill provides exemptions to the moratorium for: (1) Programs of All-Inclusive Care for the Elderly (PACE); (2) Federally Qualified Health Centers (FQHCs); (3) Rural Health Centers (RHCs); and, (4) unserved areas. It also provides an exemption for underserved areas following the first 180 days of the moratorium period.
- **Full Funding for the Expanded Medi-Cal Program for Working Disabled Persons.** SB 1113 includes \$2,640,000 General Fund to continue this program. The Health Omnibus budget trailer bill extends the sunset on this Medi-Cal program from April 1, 2005 until September 1, 2008. The program uses net countable income, but retirement resources are exempt. Recipients are subject to the payment of premiums, based on a sliding scale.

Public Health

- **Higher Fees for Genetic Disease Testing.** SB 1113 assumes that fees will be increased in order to expand statewide screening of newborns to include tandem mass spectrometry for specific disorders. Parents may opt out of the testing, which is to be implemented by July 1, 2005. It is expected that the current fee will increase from \$60 to \$78, but no maximum fee amount is set.
- **West Nile Virus.** SB 1113 includes \$977,000 General Fund for new surveillance efforts related to this disease.
- **Continued Suspension of General Fund for County Health Programs.** SB 1113 assumes that the state share share-of-cost for the County Medical Services Program (CMSP) is suspended for another year. The state General Fund contribution has been suspended every fiscal year since 1999-2000. Current law places the state at risk for any cost that exceeds the cumulative annual growth in dedicated sales tax and vehicle license fee revenue, up to a maximum of \$20,237,460 per fiscal year.
- **Establishment of Several Continuously Appropriated Funds.** Rebates paid by drug manufacturers will be deposited into newly-created, continuously appropriated funds for the AIDS Drug Assistance Program (ADAP). SB 1113 fully funds the ADAP and includes a \$15 million General Fund augmentation. Rebates for the delivery of health care, medical supplies, pharmaceuticals (including blood replacement products) and equipment will be deposited in a similar special fund for the California Children's Services (CCS) Program and the Genetically Handicapped Persons Program (GHPP).
- **Safe Drinking Water.** SB 1113 appropriates \$110 million in Proposition 50 bond funds, for use by public and private water districts to improve security and water quality.

Healthy Families Program

- **Higher Monthly Premiums.** SB 1113 includes \$750,000 (\$263,000 General Fund) for state support costs to implement a higher per child premium structure. No additional revenue or savings are assumed for the budget year. Effective July 1, 2005, the monthly premiums for children will increase from \$9 to \$15 per child, and the monthly maximum premium will increase from \$27 to \$45 per family. These increases will only affect families with incomes above 200 percent of the federal poverty level. Families will still be able to select the less expensive Community Provider Plan in which premiums will increase from \$6 to \$12 per child, with the monthly maximum increasing from \$18 to \$36 per family.

Developmental Disability Services

- **New Family Cost Participation Program.** SB 1113 includes \$268,000 General Fund for state support costs to implement the new Family Cost Participation Program. This program will commence January 1, 2005; however, no budget-year savings are included in SB 1113. Families with adjusted gross income above 400 percent of the federal poverty level will have a share of cost for three services (respite, day care, and camp). Only families whose child(ren) are between the ages of three and seventeen, live at home, and receive regional center services will be asked to make a co-payment based on a sliding scale. The Health Omnibus budget trailer bill includes numerous exemptions.
- **Unallocated Reduction.** SB 1113 reflects General Fund savings of \$7 million in the Purchase of Services budgets and \$6.5 million in the Operations budgets for regional centers.
- **Continued Cost Containment.** SB 1113 budgets General Fund savings of \$18.5 million due to the continuation of several cost containment measures that were implemented in prior years. These include: (1) freezing provider rates and contract services (\$8.1 million); (2) prohibiting new program start-ups (\$6 million); and, (3) lengthening the processing time for intake and assessment (\$4.5 million).

Mental Health

- **Supplemental Rate for Community Treatment Facilities (CTFs).** SB 1113 continues to provide an annual General Fund allocation of \$1.2 million to pay the state share (40 percent) of supplemental payments made to CTFs. Counties pay the balance. In addition to the highest foster care payment level and other supplemental funding, CTFs may receive an additional supplemental payment of up to \$2,500 per month per child. Five CTF programs are currently located in four counties: Los Angeles, San Francisco, Santa Clara, and Contra Costa.
- **Funding for Children's System of Care.** SB 1113 restores \$20 million General Fund for this program. The Governor had proposed eliminating this funding because mental health services are available to these children through other programs.

Human Services

CalWORKs

Restorations. SB 1113 rejects the Governor's proposals to (1) reduce CalWORKs grants by 5 percent, (2) reduce child-only grants by 25 percent for adults that fail to meet work participation requirements within one month of being sanctioned, (3) reduce child-only grants by 25 percent for individuals who

have received aid for more than 60 months, and (4) suspend the 2.75 percent 2004-05 CalWORKs cost-of-living adjustment (COLA).

Work Reform and COLA Delay. Instead of suspending the COLA, the budget bill delays a 2.75 percent statutory COLA for CalWORKs recipients by 3 months on a one-time only basis. Although this will save the state \$24.6 million in 2004-05, the Administration had previously requested statutory changes to eliminate the COLA for savings of \$98.5 million. In addition, SB 1113 requires CalWORKs participants to engage in 20 hours of work activities within 90 days after the date a recipient's eligibility for aid is determined. However, trailer bill amendments expand the list of allowable core work activities to include vocational and adult basic education. These reforms will result in General Fund savings of \$14.5 million in 2004-05, but may result in greater savings in future years due to caseload decreases.

Reductions. SB 1113 changes the tribal allocation of Temporary Assistance for Needy Families (TANF) funding by (1) reducing CalWORKs expenditures by \$30.5 million in 2004-05, (2) re-appropriating \$15.5 million in unspent 2003-04 tribal funding, and (3) requiring that the tribal allocation of TANF funding be based on actual caseload – rather than a formula that is based on 1994 actual costs -- beginning in 2005-06. In addition, the bill eliminates \$6.2 million for miscellaneous discretionary programs for low-income women and Indian health clinics.

In-Home Supportive Services (IHSS)

Restoration and New Waiver Proposal. The Governor proposed in January to eliminate the state-only Residual Program for savings of \$365.8 million. The program serves 75,000 individuals whose circumstances or required services disqualify them from federal funding. For example, (1) only domestic chores are needed (no medical services), (2) services are provided by a relative (parent, spouse), or (3) the recipient is severely disabled and requires 24-hour care. The Administration has rescinded the proposed elimination of the program, and, instead, will pursue a federal waiver for the federal government to assume a share-of-cost of the program. SB 1113 includes funding for 11 positions to implement and manage the waiver. This alternate proposal will result in a net reduction of \$216.5 million General Fund.

Rejection and Rescission of Other Reductions. SB 1113 rejects two major savings proposals proposed by the Governor: (1) reducing the state share-of-cost of provider wages and benefits and contract provider rates to the State minimum wage and (2) making optional the Employer-of-Record (EOR) and Advisory Committee requirements. Combined these proposals were expected to save \$131 million in 2004-05. In addition, the Administration rescinded a proposal in May to eliminate certain domestic services for recipients who live with their family members, when the need for these services is provided in common with other household members. Instead, the Administration intends to pursue a federal waiver to eliminate funding for these services in 2005-06.

Fraud, Waste, and Abuse. SB 1113 allows the state to establish and implement statewide guidelines for tasks and services performed through In-Home Supportive Services (IHSS) program. Net of costs for 21 additional positions at the Department of Social Services and the Department of Health Services, the Administration estimates this initiative will result in savings of \$11.4 million General Fund.

Other Social Service Programs

Supplemental Security Income/State Supplementary Payment (SSI/SSP). SB 1113 rejects the suspension of the January 2005 state COLA and non pass-through of the federal COLA proposed by the Governor. In lieu of these proposals, the bill delays a 2.8 percent state COLA for Supplemental Security Income/State Supplementary Payment recipients. Under current law, an annual state SSI / SSP COLA is scheduled to take effect on January 1, 2005. On a one-time basis, trailer bill amendments will allow the annual COLA to begin on April 1, 2005. Although this will save the state

\$34.5 million General Fund in 2004-05, the Administration had previously requested statutory changes to suspend the state and federal COLAs for savings of \$147.4 million.

Foster Care. Current state regulations require that counties examine foster care eligibility twice per year. SB 1113 requires only one annual foster care eligibility redetermination for budget year savings of \$4.5 million General Fund.

Community Care Licensing. SB 1113 increases fees by \$5.8 million for programs that are required to be licensed by the Department of Social Services. Licensees subject to the fee increases include childcare providers, adult care facilities, children residential programs, and senior care providers. The Administration originally proposed to increase license fees over a three-year period to fund the entire cost for the licensing program. The Legislature changed the makeup of the fees -- emphasizing larger, corporate facilities -- and limited the increase to 2004-05 only. Budget trailer bill also suspends for one year a statutory exemption that allowed family day care providers, persons operating or managing a certified family home, and volunteers at child care facilities to not pay fees for the statutorily required fingerprinting review process. This proposal results in increased revenues of \$2.8 million General Fund.

Department of Child Support Services. SB 1113 includes the following major adjustments:

- **Information Technology Expansion.** The bill includes a \$6.2 million increase for interface modifications necessary to achieve federal certifications for the state's Child Support Automation System. These modification are required to achieve federal certification and eliminate penalties of more than \$220 million General Fund per year.
- **Federal Relief.** The Administration has announced that the federal government will allow the state to defer its 2004-05 penalty payment until September 30, 2005. This results in additional savings of \$220 million General Fund and \$55 million for counties in 2004-05.
- **Decreased Federal Incentive Funding.** SB 1113 assumes a loss of \$888,000 because the state has failed to earn federal incentives related to specific performance measures. This funding will be backfilled with General Fund to maintain local program administration.

Labor and Workforce Development

Department of Industrial Relations (DIR). SB 1113 includes the following major adjustments related to the DIR:

- The bill includes an increase of \$20.1 million and 249 positions to implement changes associated with the Worker's Compensation reform bills passed in 2003. All funding for worker's compensation oversight is now funded through employer fees.
- The bill includes \$300,000 for additional labor enforcement activities. This augmentation was part of the deal between the Administration and the Legislature to repeal portions of SB 796, the "Sue Your Boss" law.
- The bill assumes the elimination of the Industrial Welfare Commission, which is currently responsible for issuing orders governing wages and labor conditions. This action will generate savings of \$235,000 in 2004-05. The Division of Labor Standards and Enforcement within the DIR would take over these functions.

Employment Development Department. SB 1113 does not address the significant Unemployment Insurance (UI) fund solvency issues that were caused by the recession and past UI benefit and eligibility expansions. As UI taxes paid by employers are determined by the fund balance and projected distributions, these factors have increased the average UI cost per employee by more than 84 percent

in 2 years. California started borrowing from the federal government on April 1, 2004 to restore solvency to the UI Fund. These issues must be resolved through future legislation.

Resources, Environment and Energy

Overview. The 2003 Budget Act included approximately \$1 billion in total fee increases across various services and programs, such as education, workers' compensation, and pesticide regulation. A large portion of this increase is attributable to a shift of support for various resources and environmental programs from General Fund to fees.

Fees are again the topic of discussion in the 2004-05 budget, some of which are proposed by the Administration, and others are proposed by the Legislature. Republicans were successful in urging the Governor to repeal or reject the more egregious fee proposals. Fees and other select topics are discussed below.

Repeal of SRA fire protection fees. The Budget Act of 2003 and related trailer bill SB 1049 (Ch. 741, Stats. 2003) imposed a new fee for fire protection on state responsibility areas. The fee was to be set at \$35 per parcel of land, except for the 2003-04 fiscal year in which the fee authority was \$70 per parcel so that a full-year of revenues would be collected despite a half-year of implementation. It was estimated that the fees would generate approximately \$52.5 million annually, of which \$50 million would be used to support the Department of Forestry and Fire Protection (CDF) in lieu of General Fund, and \$2.5 million would reimburse counties for their collection costs. However, the department recently learned that there was an over-estimate of the number of parcels that could be assessed the fee. As a result, the department has received only \$7 million of the estimated \$50 million in revenues. In order to recoup \$50 million, the per-parcel fee would likely need to be doubled from \$35 to \$70. Republicans urged the Governor to repeal the fee because it would need to be doubled, because the fee ignores the cost differential between fighting wildland fires and structural fires, and because some Californians on state responsibility areas also pay for local firefighting costs as part of their property taxes.

SB 1113 and related trailer legislation would repeal the fee and backfill with \$102.5 million (current-year shortfall and budget-year backfill) General Fund in order to preserve CDF's fire protection program.

Timber Harvest Plan (THP) fees rejected. The Budget Act of 2003 reduced CDF's General Fund support by \$10 million in anticipation of a \$10 million fee increase on timber harvest yields. Specifically, trailer legislation was proposed last year to include a timber yield fee of 2.5 percent on the total harvest value. However, the trailer bill was not passed by the Legislature, and this created a current-year shortfall in CDF's budget. In May, the Administration proposed to revamp the process for review of THPs and tie this proposal to enactment of a fee increase. However, when neither the industry nor Legislative Democrats supported the proposal, the Administration backed off on the fee increase. SB 1113 does not include a fee increase on THPs. Instead, it backfills CDF's budget with \$10 million General Fund. No legislation is required to repeal the fee increase because it was never enacted.

CALFED water user fee language rejected. During budget subcommittee hearings, the Senate adopted a proposal that requires the Bay-Delta Authority to adopt regulations establishing a CALFED user fee effective in the 2005-06 fiscal year. CALFED is a consortium of state and federal agencies created to address various inter-related water problems in the Bay-Delta region over the next 30 years. CALFED goals include improving water quality and wildlife habitat, increasing water supply, and reducing flood risks from levees. However, since CALFED began implementing programs and project construction in 2000, federal funding commitments have fallen short. The water agencies have been working with the Bay-Delta Authority to develop a long-term financing plan. Ideally, this plan would first identify projects that are to be undertaken and the related costs, then the plan would examine options for funding the program. Imposing a fee prior to, or without regard to this plan would be asking water

agencies to pay for an undefined product or service. Upon strong urging from Republicans, the Governor agreed to withdraw all language related to a CALFED fee.

Coastal Commission development permit fees rejected. The Budget Conference Committee adopted intent language that the State Coastal Commission increase its fees on coastal development permits such that at least 50 percent of the cost for processing and enforcement of those permits are recovered from fees. This would have increased permit fees by approximately \$2.9 million in the first year, and would have been subject to annual inflation increases based on CPI (Consumer Price Index). Republicans were successful eliminating the fee increase.

Incidental take permit fees rejected. Current law allows the taking of endangered or threatened species for educational, scientific study, and other specified purposes. The proposal would have imposed a new fee on permits issued by the Department of Fish and Game for the taking of those species, estimated to be approximately \$1.5 million. Republicans were successful in eliminating the fee increase.

Motor vehicle smog abatement fee increase. SB 1113 and related trailer legislation increases the motor vehicle smog abatement fee from \$6 to \$12, but extends the smog check exemption for vehicles that are less than 6 years old. Vehicle owners may save money from this proposal, because they would be exempted from the biennial smog check currently required in a vehicle's fifth year. Vehicle owners who sell their vehicle before year 6 or buy a vehicle in year 6 will not accrue these savings. This proposal would increase revenues by \$67.8 million, of which \$61 million would be allocated to the Carl-Moyer clean air program and \$6.8 million would provide increased funding for the Low-Income Vehicle Repair and Assistance Program. The vehicle repair assistance program is available to qualifying low-income persons whose vehicles have failed a smog check inspection.

Fees on water rights holders. SB 1113 and trailer legislation would increase fees on water rights holders so that the Watermaster Service Program, within the Department of Water Resources, is funded 100 percent from user fees. The primary purpose of the program is to ensure that water is allocated among the various rights holders consistent with various agreements and court orders. Current law provides that the program is to be funded 50 percent by the State, and 50 percent by the water rights holders. Due to General Fund cutbacks, the Administration proposes to shift the entire program cost to user fees. This proposal would increase fees by an estimated \$1,562,000 in the first year, and is subject to future increases commensurate with program expenditures.

Suspension of the Natural Heritage Preservation Tax Credit. The Natural Heritage Preservation Tax Credit Act of 2000 (Ch. 113, St. 2000 – O'Connell) established a program allowing landowners to donate real property for habitat preservation or environmental conservation to the state, local government entities, or qualified nonprofit organizations. In exchange for the donation, landowners receive a tax credit of 55 percent of the appraised fair market value of the donated property. Tax credits were awarded under this program in 2000-01 and 2001-02, but were suspended in 2002-03. During those two years, a total of approximately \$33 million was awarded. Trailer legislation suspends the award of tax credits for donation of qualified land under the Natural Heritage Preservation Tax Credit Act in fiscal years 2003-04 and 2004-05, unless non-General Fund resources are available to reimburse the General Fund for any revenue loss resulting from the award of those tax credits. The proposal would also extend the sunset of the credit by three years to make up for the years in which the credit is suspended. This proposal would avoid General Fund revenue loss of \$8.7 million in 2003-04 and \$10.3 million in 2004-05. However, since the measure extends the sunset, the revenue loss would be shifted to 2006-07 and 2007-08.

Williamson Act. Administrative functions related to the Williamson Act and the California Farmland Conservancy Program are proposed to be shifted from the General Fund to special funds, for a General Fund savings of \$1.2 million. Beyond this reduction, the Budget proposes to maintain subvention funding for the Williamson Act at approximately \$40 million.

San Francisco Bay Conservation and Development Commission fees. SB 1113 includes provisional language to allow the Commission to increase fees to support 20 percent of its regulatory programs. These fees are imposed on permit applications for commercial and residential development of lands located along the San Francisco Bay. Currently, permitting fees range from \$50 to \$10,000. This proposal would increase those fees to \$160 and \$32,100.

River Parkways. Trailer legislation would enact the California River Parkways Act of 2004 and require the Resources Agency to provide grants to public and nonprofit entities for river parkway projects. The measure would also appropriate \$7,850,000 from Proposition 40 bond funds, and \$30,500,000 from Proposition 50 bond funds for the acquisition and development of river parkways.

Sierra Nevada-Cascade Conservation Program. Trailer legislation would establish the Sierra Nevada-Cascade Conservation Program and authorize the Resources Agency, consistent with Proposition 50, to provide grants of bond funds to public and nonprofit entities for the acquisition of land and water rights that would protect water quality in the region. This measure appropriates \$9,150,000 for 2004-05, out of the \$30 million available from Proposition 50 for these purposes.

Flood Maintenance Areas. The Administration proposed trailer legislation that would hold local governments accountable for flood maintenance areas and shift the related costs to property owners as follows:

- Provides the Department of Water Resources the discretionary authority to not form flood Maintenance Areas. Current law requires the State to assume maintenance and operation of a flood control project (thereby forming a flood Maintenance Area) if a local agency declares that it no longer desires to maintain it, and if the State has given specified assurances to the federal government. This measure would allow the State to decline forming a Maintenance Area if the State has not given assurances to the federal government. The Administration indicates that this proposal would result in cost avoidances of between \$200,000 to \$1 million for every Maintenance Area that is not formed.
- Allows the Department of Water Resources to recover liability insurance and other legal costs related to flood Maintenance Areas. Current law allows the department to recover maintenance costs through assessments on land parcels protected within those areas. In an effort to reduce state liabilities, the Administration proposes to expand the definition of maintenance costs to include various administrative and legal costs, and thereby shift these costs to property owners. The Administration indicates that this could save the State General Fund “as much as tens to hundreds of millions of dollars.”

Conservation Corps – Los Padres Residential Facility. The Governor's Budget proposed to close and downsize several conservation corps centers that provide work training to young men and women between the ages of 18 and 23. This proposal was estimated to generate approximately \$10.5 million in General Fund savings.

However, upon further consideration of the need for firefighting assistance and conservation efforts in the San Luis Obispo region, SB 1113 proposes to restore 14.0 positions to allow the Los Padres residential facility to continue operations. No new funding is needed due to redirections and savings from cuts to administrative functions.

California Power Authority elimination rejected. This agency was established to promote conservation and renewable resources, with the intent that it become financially self-sufficient. The Governor's Budget proposed elimination of the agency effective September 30, 2004 because it has not reached financial self-sufficiency and private entities already perform similar activities. SB 1113 rejected the proposed elimination. However, the California Performance Review has completed its

work and further reorganization of energy agencies may be forthcoming in next year's budget proposals.

Justice/Judiciary & Public Safety

Department of Justice. SB 1113 provides \$7.3 million, General Fund, to fund a structural budget deficit due to increased workload in the Criminal Law, Civil Law and Public Rights Divisions; \$8.1 million, lease revenue bonds, to continue the Santa Barbara Forensics Crime Lab replacement project; continues \$5.1 million, General Fund, for Underwriter's Litigation related to the Stringfellow toxic dump site; \$1.8 million to implement background checks for Department of Real Estate and Department of Consumer Affairs licensees pursuant to SB 1080 (Chapter 807, Statutes of 2003); and \$1.5 million, General Fund, to address 1986 and 1997 California flood litigation.

Judicial Council. SB 1113 includes \$4.3 million, General Fund, to fund an increase in judges salaries and benefits, employees salaries, and an increase in security costs provided to the Council and the Appellate Courts by the California Highway Patrol.

State Trial Court Funding. SB 1113 provides \$110.5 million, General Fund, to fund the following trial court costs: increased salaries and benefits for Sheriff's that provide security for the courts; increases in Judge's retirement system; increased statewide trial court staff retirement; non-salary driven costs of employee benefit plans; salaries and benefits of existing labor agreements; Judge's salaries and benefits; amounts charged to the courts by counties for various administrative functions; and extraordinary homicide trials.

The Trial Court budget includes a \$75 million unallocated reduction and assumes a \$2.3 million savings as a result of eliminating juror pay for governmental employees.

SB 1113, through a related trailer bill, would **extend the \$20 civil filing fee** sunset date from June 30, 2004, to June 30, 2005, in order to provide \$12.4 million to offset a shortfall in the budget year. Without this extension the General Fund would likely be required to make up the shortfall.

California Law Revision Commission. SB 1113 provides \$662,000 for the continued operation of the commission. The May Revision proposed elimination of the Commission.

Youth and Adult Correctional Agency. SB 1113 includes a \$1.7 million augmentation to provide increased oversight and policy direction to the entities under the Agency's supervision.

Office of the Inspector General (OIG). SB 1113 includes \$4.9 million General Fund and 25 positions to establish an Office of Independent Review within the OIG for a total support budget of \$8.3 million. The Governor's Budget proposed elimination of the OIG but this proposal was rescinded in the May Revision.

Department of Corrections (CDC). The Governor's Budget and May Revision anticipated a savings of \$477 million of which \$300 million was predicated upon the renegotiations of various Collective Bargaining agreements. However, the overall two-year savings attributable to the Memorandum of Understanding (MOU) Addendum, if ratified, is estimated at \$108 million (\$107 GF), of which \$63.2 million is attributable to 2004-05. However, this savings will be offset by approximately \$27 million (not related to the ratification of this MOU) for 2.0 percent raises for Nurses, Psychological Technicians and Teachers at the Department of Corrections, Youth Authority (YA) and State Special Schools, for a net savings of approximately \$36 million in 2004-05.

SB 1113 rejects proposals to provide no prison sentence for those convicted of petty theft that have committed a prior offense, no parole supervision for non-violent and non-serious offenders once released from prison, early release of inmates with certain medical conditions, increased visitation for

inmates, enhanced jail credits pilot program and felony drug court supervision of parole violators with new terms.

SB 1113 includes \$163.2 million, General Fund, which includes:

- \$99.5 million and 1,238.8 positions related to adjusting posted position relief factors to the appropriate level and thereby provide adequate resources for CDC to cover posts;
- \$22.2 million and 264 positions to implement the Court Order associated with **Jerry Valdivia, et al., v. Arnold Schwarzenegger, et al.**, which held that parole revocation procedures violated due process. (See Board of Prison Terms for Corresponding Issue);
- \$18.2 million and 114.9 positions to fund increased medical guarding and transportation of inmates;
- \$16.8 million and 193 positions to establish standardized staffing levels in administrative segregation overflow units;
- \$4.6 million and 10 positions for Business Information Systems (BIS) Enterprise Resources Solution to consolidate CDC business data; and
- \$1.9 million and 20 positions to provide for vertical prosecution in employee disciplinary matters and improve the quality and timeliness of investigations.

SB 1113 includes the continuation and expansion of various parole accountability and prerelease and post-release programs that promote effective prerelease and reentry transition in to the community, supervision and enforcement strategies, swift and appropriate sanctions for parole violations, and discharge practices that provide incentive for successful reintegration into society, for an estimated net General Fund savings of \$86.8 million.

- This includes an augmentation of \$14.8 million and 128.5 positions to expand or implement: the restitution program; the Substance Abuse and Treatment (STAR) program, which is an instructional based substance abuse treatment program for parolees; the Police and Corrections Teams (PACT) program that consists of police, community service providers and correctional staff who work in teams to facilitate parolee orientation; the Law Enforcement Automated Database System (LEADS) which provides local law enforcement with parolee information; electronic monitoring services for parolees; Global Positioning Satellite (GPS) monitoring for sex offenders; and a program evaluation in order to determine the efficacy of the reforms.
- An anticipated savings of \$101.6 million as a result of reduced recidivism or earlier parole discharge attributable to the continuation and expansion of various existing programs including the restitution program, STAR program, and Residential Multi-Service Centers. Additional savings would result by modification of parole discharge procedures.

Operational efficiencies expected to yield savings of \$35.3 million include: streamlining existing processes, prioritizing workload, and eliminating vacant positions and operating expenses and equipment; reducing basic correctional officer academy training to one class and utilize community college courses in 2005-06; streamlining classification services workload; providing energy audits to reduce energy expenditures; and establishing centralized purchasing unit.

Medical program improvements proposed to yield savings of \$35.5 million include: implementing contract medical reforms as proposed by the Bureau of State Audits including improved contract utilization review and expedited payments; modifying prescribing practices for high cost drug categories; providing that non-contract hospitals shall be reimbursed for only their reasonable and allowable expenses that non-contract emergency services and non-emergency response services providers will be reimbursed at the Medicare rate; and implementing a standardized treatment for hepatitis C treatment.

Department of the Youth Authority (CYA). SB 1113 includes \$35.7 million in General Fund savings, due to various CYA facility closures initiated in 2003-04, which includes savings of \$28.2 million for the closure of Fred C. Nelles Youth Correctional Facility and the Mount Bullion Youth Correctional Conservation Camp in 2004-05.

Board of Prison Terms. SB 1113 includes 130 positions and \$34.8 million to implement the remedial plan pursuant to the **Jerry Valdivia, et al., v. Arnold Schwarzenegger, et al.** Court Order (See Department of Corrections for Corresponding Issue).

Board of Corrections. The bill provides \$134.3 million, General Fund, for support of local county probation services. These services were previously supported by federal Temporary Assistance for Needy Families (TANF) funding provided via the Department of Social Services. The funding was initially proposed for elimination in the Governor's Budget.

State Criminal Alien Assistance Program (SCAAP) Funds. SB 1113 assumes that the State will receive \$78.2 million in federal funds for the costs of incarcerating undocumented immigrants in the 2004-05 fiscal year.

General Government

Department of Alcoholic Beverage Control (ABC). SB 1113 and related trailer bills assume the acceptance of "petitions for an offer in compromise" that would allow establishments to pay a fine in lieu of a suspension. The fine would be 50 percent of the estimated gross sales of alcoholic beverages for each day of a proposed suspension, with a cap of \$20,000. The budget assumes an **additional \$1.3 million in General Fund** revenue associated with this proposal. The ABC would still have the authority to suspend licenses when that punishment seems more appropriate.

Secretary of State. The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$260 million in federal funds for changes to election equipment and processes in California. Although federal spending guidelines have not yet been released, SB 1113 assumes receipt of these funds. The budget bill contains language requiring the Secretary of State submit a detailed spending plan before allocating this funding.

Arts Council. SB 1113 increases arts grant funding by \$1 million General Fund. In 2003-04, no General Fund was provided for grant programs

Department of Community Housing and Development (HCD). SB 1113 and a related trailer bill require businesses in enterprise zones (EZs) to reimburse the state for the cost of processing program extension requests and other related activities. This change will generate revenue of approximately \$685,000 General Fund.

Homeland security. SB 1113 reflects an increase of \$156 million in federal funds for anti-terrorism prevention and homeland security grants to state and local agencies. The proposal also includes an increase of \$1.9 million federal funds to provide 13 positions for the California Office of Homeland Security. These positions will coordinate detection and emergency response protocols between federal, state and local law enforcement agencies as well as advise the Governor.

Animal adoption mandate funded. Enacted in 1998, Chapter 752 requires local animal control agencies to perform a variety of services related to stray and abandoned animals such as:

- Increase the holding period for impounded animals from 3 days to 6 days before they can be euthanized;
- Ensure that impounded animals receive “necessary prompt veterinary care”;
- Post lost and found lists; etc.

In 2001, the Commission on State Mandates determined that the State must pay local agencies for the costs related to this mandate. Since then, both the Bureau of State Audits and the Legislative Analyst have recommended that the Legislature modify the parameters of the mandate because local reimbursement claims exceeded \$10 million annually. This is one of the more costly mandates. Earlier, the Administration proposed to repeal the mandate. However, the Administration has since reversed the proposal and SB 1113 includes \$13.9 million General Fund to pay for this mandate in fiscal year 2004-05.

Franchise Tax Board. SB 1113 includes:

- \$51.3 million (\$18.5 million General Fund) in order to continue the Child Support Automation Enforcement (CCSAS) component database.
- \$10.2 million and 72 temporary help positions to administer a personal income and corporate tax amnesty program that is an estimated to bring in \$200 million in revenue for 2004-05. (See Corresponding Issue in the Board of Equalization Budget)
- \$7.6 million including \$3.9 million for tax shelter experts (consultants) and \$3.7 million to backfill 67 redirected auditor positions for a total of \$73.5 million in revenue. This revenue includes revenue from the abusive tax shelter audits and revenue from backfilling auditors redirected to the abusive tax shelter audits.
- \$1.3 million to defend a lawsuit filed by a taxpayer in Nevada. The Department of Justice provided notification that they will no longer be representing the Board.
- **Several fees** for "specialized" taxpayer services are proposed for installment payment programs and expedited services for corporation revival requests, tax clearance certificate requests and tax-exempt status requests. The estimated \$900,000 will offset a commensurate level General Fund expenditures. \$100,000 is required for implementation and administrative costs.

The measure rejects the Administration’s \$1.4 million proposal to impose fees on candidates, lobbyists and political committees to pay for the Political Reform Audit program.

Board of Equalization. SB 1113 restores \$7.3 million (\$4.7 million, General Fund) to fund 140 existing positions and provides for the redirection of 20 non-revenue producing positions to revenue producing activities. Additionally, \$3.5 million (\$2.3 million, General Fund) is included to administer a sales tax amnesty program that is estimated to bring in \$148 million in revenue in 2004-05. (See Corresponding Issue in the Franchise Tax Board Budget).

California Victim Compensation and Government Claims Board. SB 1113 shifts costs associated with the Government Claims Program to reimbursements, for General Fund savings of \$809,000 beginning in 2004-05 as filers of civil claims against the state would pay a filing fee, which would be refunded upon approval of the claim. Included within this reduction plan is a proposal to require charities that participate in the California State Employees Charitable Campaign to support the full cost of the certification program.

Statewide Issues

Reform the State's Real Property Asset Management Process. Under current law, the state must offer surplus property to local agencies for purchase at market prices, or under specified conditions, less than fair market prices. Trailer bill language changes state law to allow local agencies the exclusive right to purchase surplus state property within a specified time at market value. The state will appropriate \$2.8 million in funds generated from the sale of surplus property to the Department of General Services, for the purposes of encouraging the identification and disposal of surplus property. SB 1113 assumes \$75 million in additional General Fund revenues as a result of the sale of state assets in 2004-05.

Augmentation for Employee Compensation. The Administration's May Revision proposed the elimination of all funding for employee compensation increases included in existing collective bargaining agreements. This proposal would have generated savings of \$464 million General Fund in 2004-05. SB 1113 rejects this proposal. Instead, the budget assumes savings of \$36.5 million in 2004-05, as a result of a delay in previously agreed upon raises for Correctional Officers and a 2-percent raise for nurses, psychology technicians and teachers in correctional facilities.

Strategic Sourcing. The budget includes a new Control Section (33.50) to capture \$96 million General Fund in anticipated savings in 2004-05 through a new procurement methodology. According to the Administration, Strategic Sourcing is a procurement reform for purchasing goods and services basis with an emphases on saving through purchasing in bulk. This Control Section requires the Department of Finance to submit an implementation timeline and a report of proposed savings prior to the implementation of the Control Section.

Administrative Reductions. SB 1113 includes a Control Section (4.10) that allows the Director of Finance to administratively reduce General Fund appropriations by \$300 million in 2004-05. Half of this reduction may be made as a result of a government reorganization plan submitted to the Little Hoover Commission. Reductions may be enacted after 30 day notice to the Legislature.

Pension Obligation Bond and Related Reforms. SB 1113 assumes the state will issue \$929 million in pension obligation bonds in 2004-05. The Treasurer's office estimates the Pension Obligation Bonds will cost \$1.7 billion over 20 years. Proceeds from the bonds authorized by this measure will allow no General Fund spending on the April and a portion of the June 2005 quarterly state pension payments.

The pension obligation bonds assumed in SB 1113 are part of two deals reached between (1) the Administration and the state's unions and (2) the Administration and the Howard Jarvis Taxpayers' Association. A related trailer bill will temporarily keep most non-safety state employees out of the pension system for their first two years of employment. These reforms are estimated to save the state \$59 million (\$32 million General Fund) in 2004-05 and \$2.9 billion (\$1.6 billion General Fund) over the life of the bonds.

Rural Health Care. SB 1113 continues the Rural Health Care Equity Program, which provides reimbursements for premium costs, deductibles, copayments, and other out-of-pocket health care costs incurred by state employees and annuitants living in rural areas that are not served by HMOs. The program reimburses up to \$500 per year in out-of-pocket costs to eligible retired state employees, or, for those that participate in Medicare, reimbursement of the Part B premium (up to \$75 per month). Extension of this program was part of the deal between the Administration and state unions over pension reform. The program will the state \$11.3 million in 2004-05 and \$22.6 million General Fund in future years.

Use Tax. SB 1113 assumes, via budget trailer bill, the expansion of the application of an existing presumption that that any vehicle, vessel or aircraft purchased must remain out of state for one year or

be subject to use tax. Based upon a static analysis the proposal will cost taxpayers \$25.9 million in 2004-05 assuming an October enactment.

Teacher Tax Credit. SB 1113 assumes the suspension of the Teacher Tax Credit for two years, which would result in revenues of \$210 million in 2004-05, and \$180 million in 2005-06.

Indian Gaming. SB 1113 assumes a \$300 million in *Indian gaming* revenue as a result of the most recently negotiated compacts.

Punitive Damages. SB 1113 assumes enactment of budget trailer bill language which would provide that 75 percent of punitive damage awards are to be deposited in the State's Public Benefit Trust Fund, which would be created by this measure, to be available for appropriation in the Budget Act and used for purposes consistent with the nature of the award. This assumes the collection of \$450 million in 2004-05. However, the revenue estimates are questionable and may not likely materialize.

California Gambling Control Commission. SB 1113 transfers \$50.5 million from the Special Distribution Fund (SDF) to the Revenue Sharing Trust Fund (RSTF) in order to fund the shortfall in the RSTF in order to provide funding to noncompact gaming tribes (\$96.5 million). Additionally, the measure would appropriate \$30 million from the SDF for support of local agencies impacted by tribal gaming, \$1 million to support the costs of tribal state compact negotiators, and \$500,000 for bond counsel to sell the bonds associated with the ratified compacts pursuant to Chapter 91, Statutes of 2004 (AB 687).